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Student loans that make sense

By Elizabeth LaScala

Doing College and Beyond College and Graduate School Admissions Services 970 Dewing Avenue, Suite 202, Lafayette 925.385.0562 (office) 925.330.8801 (mobile) www.doingcollege.com Elizabeth@doingcollege.com Elizabeth LaScala, PhD, brings decades of admissions expertise to personally guide each student through applying to well-matched colleges, making each step more manageable and less stressful. She has placed hundreds of students in the most prestigious colleges and universities in the US. Elizabeth attends conferences, visits campuses and makes personal contacts with admissions networks to stay current on the evolving nature of college admissions. She and her professional team offer resume development, test preparation, academic tutoring, value analysis, merit and need-based scholarship search and more.

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When college students borrow judiciously, they can build a sound credit history, add value to their lives now and prepare for their future. Some families who can pay full college costs choose to have their student take out loans to fund college so the student can be a stakeholder in their own education. Other families borrow to relieve the strain of tuition payments, even if they do not qualify for need-based aid. The key is for students to use loans wisely, so they end up with a manageable debt, while building and maintaining a good credit history.

One way for students to conservatively manage their debt is to borrow no more than the maximum allowed through the Direct Student Loan Program administered by the US Department of Education. Direct Subsidized Loans are available to undergraduate students with demonstrated financial need. Direct Unsubsidized Loans are available with no requirement to demonstrate need. Subsidized means that the federal government pays the interest while the student is enrolled at least half time in school and for the first six months after they graduate. Unsubsidized means that the student pays the interest while they are in school and after graduation until the loan is paid off.

If a student qualifies for an interest-subsidized loan, the aggregate total allowed is $19,000 over four years in college. A student who does not qualify for subsidized loans may borrow up to $27,000 in unsubsidized loans, also over four years. Colleges that receive federal money for these kinds of student loans administer the loans through their financial aid offices. When a student has demonstrated financial need, the college's financial aid office can award a combination of interest-subsidized and unsubsidized loans, but the aggregate amount of debt cannot exceed $27,000.

The interest rate for Direct Student Loans is fixed for the 2022-23 academic year at 4.99%. The Department of Education provides very clear and annually updated guidelines to the affordability of college and reasonable levels of college debt (see: https://studentaid.gov/understand-aid/types/loans/subsidized-unsubsidized). A handy tool to estimate the annual salary one needs to pay back a specific amount of loan can be found on FinAid's website (see: https://finaid.org/calculators/loanpayments/). For example, if a student accrued a debt of $27,000, he or she would have to earn about $35,000 annually to make a monthly payment of about $290 over a 10-year time span required to pay off the debt.

Financial aid offices might also award Direct Parent PLUS Loans. These, too, are federal loans, only parents are the borrowers. Parents may borrow up to the estimated total cost of attendance for college, including tuition, fees, room and board and incidentals such as books, less any financial aid the student received. Eligibility for Direct Parent PLUS Loans is based on a credit check. Interest is charged during the entire period of the loan. The interest rate for these loans is 7.54%. There is also an origination fee of

4.228%, which is deducted from the principle. Three types of repayment plans are available, depending on the parent's income and creditworthiness as well the total amount borrowed (see: https://studentaid.gov/understand-aid/types/loans/plus/parent). Depending on the plan, parents may pay off their debt within 10 to 30 years.

Parents who are considering Parent PLUS Loans should be careful to consider how much they want to borrow for each year that their student is college. When the annual cost of attendance at some highly selective private institutions is approaching $90,000, excessive student loan debts may put parents' retirement at risk. So, parents, like students, should also borrow judiciously to maintain good credit and prepare for their future.

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